

DRAFT DIRECTIVE ON MANAGEMENT OF INDIVIDUALS' FUNDS QUESTIONS AND ANSWERS

NOTE: This attachment poses certain frequently asked questions concerning the directive on the management of individuals' funds, and gives answers to the questions. Included with the answers are discussions of the issues raised by the questions. This information should be used as further clarification of the language of the directive.

1. (Reference: I) Would it be appropriate to develop separate directives for each of the different residential programs?

The intent behind this directive is to give providers the minimum guidelines for managing individuals' funds, and to let each provider implement those guidelines in their own setting. These minimum guidelines address the basic requirements for sound financial management of a fiduciary responsibility. These minimum guidelines apply equally regardless of the particular residential program. Therefore, only one directive has been developed.

In the directive, there is one exception to the statement that only basic financial guidelines are given. The exception is the ICF/MR management contract. Because of the retention by SCDDSN of the maintenance of Medicaid eligibility work for individuals in these residences, some very specific procedures are included in the directive.

2. (Reference: II, B) What is a provider's responsibility for the use of an individual's funds when the provider is not the individual's representative payee?

The provider is responsible only for individuals' funds which they hold. If another person is representative payee and has custody of an individual's funds, the provider is not financially responsible for the use of those funds. The provider does have a programmatic responsibility with respect to the use of the individual's funds in that a financial plan should still be incorporated into the individual's IPP, and that IPP, including the financial plan portion, should be continuously monitored and updated. If the individual owes the provider any fees, it is the provider's responsibility to bill the individual or his/her representative payee for the fees, and to follow up on collection of the fees.

3. (Reference: II, B) Should it be a requirement that the provider be the individual's representative payee?

Social Security Administration determines who is representative payee. Generally, Social Security approves a representative payee that facilitates payment being sent to the beneficiary's residence. The individual or a provider can appeal to Social Security the designation of representative payee. A provider should appeal in any situation where abuse of representative payee status is suspected.

4. (Reference: II, C) Is it necessary to bond all employees who have any access to funds belonging to individuals receiving services from a provider? Will bonding of employees require significant additional expense for providers?

Yes, it is necessary. Purchase of a bond to cover employees who have access to funds belonging to individuals receiving services from a provider, if properly structured, should not cause significant additional expense and should provide coverage to all funds. In considering a bond purchase, two main factors should be decided; the deductible amount and the description of the employees to be covered.

Each provider should determine an amount of money that they are willing to cover from their own funds should the clients' funds be misappropriated or lost. The higher a provider sets this "deductible" amount, the lower the cost of the bond will be. Since certain staff will have access to only minimum funds, the setting of the deductible amount may have the effect of eliminating certain staff positions from the coverage. The provider must cover all losses that do not meet the deductible.

When purchasing a bond, generally it is better to describe the staff positions that are being covered rather than list individual staff names. This again lowers the cost of the bond, and also makes administration of the bond easier since no bond change has to be made when a staff change occurs.

When a bond is properly structured, the cost of the bond will not be excessive.

5. (Reference: II, D) What are the policy safeguards for individuals to protect their interests when financial obligations are shared among individuals?

The policy safeguards here are the same safeguards that cover all activity in the individual's funds. They are:

- • Agreement among the interdisciplinary team to the need to share financial obligations.
- • Documentation in the individual's IPP of the reasons for sharing and the methods of calculating an individual's shared obligations.
- • Reviews for compliance with the IPP of the actual use of an individual's funds to pay shared obligations.

6. (Reference: IV, A, and V, C) Does a checking account for an individual have to include the representative payee in the account name? Should the account be a joint account belonging to both the individual and the representative payee?

The first choice in setting up an account is that the account be in the individual's name. If the account is not in the individual's name (due to programmatic or other reasons) and the provider is the representative payee, then the account should be set up in a manner that shows the fiduciary relationship of the provider to the individual. The account should clearly indicate that ownership of the funds by the individual. Examples of such accounts are:

- • ABC County MR Board, Representative Payee for John Jones
- • John Jones, by ABC County MR Board, Representative Payee

Joint accounts with both the individual and a staff person as co-owners should not be established.

7. (Reference: IV, A, and V, C) Why are co-signatures required?

In all cases, expenditures of an individual's funds must be acknowledged by the individual to the greatest extent possible. Acknowledgment is made by the individual's signature or mark on all checks on his account. (For individuals whose funds are maintained in a collective account, the document used to initiate withdrawal of the funds from his/her account within the collective account, acts similarly to a check. It must be signed by the individual just as a check must.)

In cases where an individual cannot manage his/her funds without assistance, then it is appropriate for a co-signature to be used. The co-signature, which is limited to those who have responsibility for managing the individual's funds, indicates that the expenditure is an appropriate use of his or her funds.

In some instances, an individual may be able to manage his or her funds independently. When such ability is documented in the individual's IPP, then the bank account may be set up without a co-signature.

8. (Reference: IV, A, and V, C) Should provider residential staff be allowed to be co-signers on residents bank accounts?

If provider residential staff have been assigned the responsibility of managing a resident's funds in accordance with his/her IPP, then it would be appropriate for the staff to be a co-signer. A staff person cannot both be a co-signer and reconcile the account.

9. (Reference: IV, A and V, B) How do the requirements concerning checking accounts apply to collective accounts?

Section IV, A, states that "(a)ll requirements of individual checking or savings accounts apply to individual sub-accounts within a collective account." To meet this requirement, collective accounts have to be structured so that individuals sign a document that acts as a check to withdraw funds, and the document must have a co-signature unless the individual's IPP specifically approves otherwise. Also, there must be a file showing all approved co-signers. All benefit or entitlement checks must be recorded in the individual's sub-account.

The procedures outlined in IV, B, also apply to sub-accounts within a collective account with the exception of the procedures regarding bank reconciliations. References to checks

and deposit should be translated to apply to the documents that act as checks or deposit slips in the collective account.

With a collective account, the bank reconciliation will be done between the collective account as a whole, and the bank account where the funds are on deposit. This reconciliation should be done by provider finance staff. The staff doing the reconciliation should not be approved to authorize the use of any individuals' funds maintained in the collective account. As part of the reconciliation of a collective account, the documentation must show that the individual sub-account balances agree to the total collective account balance.

The reconciliation should be completed within 15 days after month end. If any collective account cannot be reconciled within \$50, the person doing the reconciliation shall notify the Executive Director. The Executive Director shall then follow the same guidelines for reporting the problem as outlined for individual accounts.

10. (Reference: IV, A and V, B) What is the advantage of a collective account? Of individual accounts?

The main advantage of a collective account is administrative ease. With a collective account, there is generally only one bank account to reconcile instead of many. This can represent a significant staff time savings, especially when residential staff are not well versed on the process of bank reconciliations. A collective account can have some advantages in interest earnings since many small balances are accumulated into one larger balance. The main advantage of individual accounts is programmatic. Individual accounts are the most normal, least restrictive way of doing business. They also provide the opportunity for individuals to learn how to handle banking and money matters in the community.

Some argue that collective accounts give greater financial control over individuals' funds by not allowing residential or program staff direct access to funds. With either collective or individual accounts, it is residential or program staff who authorize the expenditure of individuals' funds, and those staff who have the responsibility for using funds in accordance with the IPP. Only the document used to do the authorization is different. (For a bank account, a check is used. For a collective account, something that takes the place of a check will be used.)

Collective accounts require approval by SCDDSN Central Office. Collective accounts generally will not be approved for SLP and CTH programs.

11. (Reference: IV, B and V, E) Why should all benefits be deposited into an individual's account, and his/her fees to the provider be paid from that account, rather than the provider taking fees up front and the balance only being deposited into the individual's account?

Normalization is the basic principle underlying this requirement. The single largest financial responsibility an individual will usually have is the payment of fees to his/her

residential provider. Admittedly, depositing benefits into individuals' accounts and paying fees from those accounts may require some more effort on the provider's part.

An advantage of paying fees from the individual's account is that the account documents all the uses of an individual's funds. This documentation is required by Social Security and other benefit payors. (Such documentation can be provided by alternative methods as well.)

12. (Reference: IV, B, and V, E) How can a provider make sure that an individual does not use all of his/her funds and then not have sufficient funds to pay the fees due the provider?

The IPP should contain a financial plan that, if followed, makes sure that provider fees are paid. The residential staff responsible for the implementation of this IPP must make sure that the plan is followed. When the plan is not followed, it must be addressed as must any other life skills problem, and a plan to change the behavior developed and implemented.

13. (Reference: IV, B) When must receipts for purchases be maintained?

Section IV, B(7), states that receipts for "incidental items of a non permanent nature" do not have to be retained. This general description was used because it is not practical to list all situations and state whether retention of receipts is required or not.

The intention of the requirement is that any time an individual's funds are spent on a tangible item that should be kept by the individual or on a significant service provided to the individual, the provider can demonstrate at a later time that the items shown as purchased were received by the individual, or that the individual did get the service paid for. While receipts are generally necessary, they are not always required. To avoid an institutional bias as much as is financially responsible, residents do not have to request receipts for transactions where receipts are not ordinarily given.

Receipts may be retained more frequently than required by the directive if required by an individual provider, or if thought advisable by staff with responsibility for individuals' funds. It would be appropriate to retain all receipts given, whether required or not. Receipts should be obtained and retained whenever purchases are made by staff on behalf of a resident.

14. (Reference: IV, B) How does direct deposit of benefits work? How are errors handled?

With direct deposit of benefits, the representative payee files a form, generally with the bank where the individual's account is maintained, that authorizes the benefit payer agency to pay the individual's benefits by EFT (electronic funds transfer) rather than by check. After the form has been processed, the paying agency sends all future benefit payments directly to the bank, and the amount is credited directly to the individual's account. The deposit of the funds is reported to the individual on the next bank statement. Any information which the paying agency sends other than the payment will still come directly to the representative payee through the mail.

In a case where a deposit was made to an account in error, the representative payee would contact the bank about the error. The bank would instruct the representative payee in the best process to return the funds. In a case where a deposit was due, but was not made, the representative payee would contact the paying agency to determine what action to take.

Generally, once established, payments by EFT are extremely accurate and trouble free.

15. (Reference: V) Why are regional bank accounts necessary for management contract ICF/MR facilities?

Regional bank accounts and community accounts funded on an imprest basis are used to facilitate the management of Medicaid eligibility. In order to maintain Medicaid eligibility and to do the necessary reporting of financial assets and activity, a person has to have knowledge of all an individual's financial activity. The use of the combination of the regional bank account and a community account is designed to let DMR staff manage Medicaid eligibility while allowing individuals in those residences to have the "normalized" experience that is consistent with programmatic goals. DMR staff continue to manage Medicaid eligibility for residents of management contract ICF/MRs for two reasons - cost effectiveness and financial liability.

Maintaining Medicaid eligibility and billing for Medicaid days requires specialized expertise. Management contract providers do not have to pay for staff with this expertise since DMR does the work. DMR realizes financial "economies of scale."

Because of the current contracting method for management contracts, the cost in lost revenue from incorrect Medicaid billing or from unpaid resident fees is borne by DMR. DMR pays the provider full cost. It is appropriate that DMR handle the billing and collecting process since the result of the process affects DMR's finances.

16. (Reference: V) Will DMR always require the use of the Regional Bank for management contract facilities? Will DMR expand the requirement to use the Regional Bank to other facilities in the future?

As explained in the question above, it is currently the best procedure to continue the use of the Regional Bank for management contract facilities. The Department's intention is minimize and eventually eliminate any differences between management and match ICF/MR facilities. The use of the Regional Bank will be reviewed as part of achieving this goal. If possible, the use of the Regional Bank will be eliminated for individuals not residing in a regional center.

17. (Reference: V) For management contract ICF/MR's, the community account functions on an "imprest basis." What does this mean, and how does it work?

When an account is managed on an imprest basis, funds are first spent from the account and then the account is reimbursed for those expenditures. There is a certain amount of

money put into the account to cover the initial expenditures. After that, only reimbursements of expenditures are deposited into the account. For example, if a resident had a community account set up for a maximum of \$200, \$200 would be put into the account when it was established. If during the week, the resident withdrew \$20 for weekly spending money and made a purchase of clothes that cost \$75, the account would go down to \$105. A request for \$95 would then be sent to the regional bank along with documentation showing how the \$95 had been used. The regional bank would send a check for \$95 which would be deposited into the community account. The community account would then have a balance of \$200 again.

18. (Reference: V) How often should imprest community accounts be replenished?

Accounts must be replenished at least quarterly. In practice, accounts will likely be replenished more frequently. The timing should be determined when a provider has experience on how long it takes to get a replenishment check, and how much an individual is spending. Each regional bank will develop specific procedures and forms on which to request replenishment. The information submitted with a replenishment request must include detail on the expenditures being reimbursed.

19. (Reference: VI) How much cash should be kept on hand in a residence? Under what procedure does cash get to be on hand in a residence?

Section VI states that the amount an individual may have on hand should be determined individually and should be stated in the individual's IPP. The maximum is \$50, unless an exception is programmatically supported in the individual's IPP. The \$50 maximum would apply to the total of cash held by the resident and on the resident's behalf by residence staff.

An individual would get cash on hand through his/her weekly spending allowance. The amount of cash drawn as a weekly spending allowance should also be stated in the individual's IPP. The individual may draw the full weekly allowance each week unless the full draw would cause the cash on hand to exceed the stated on hand maximum for that individual.

The maximum amount that could be on hand in any residence would be the sum of the maximums for the individuals living in that residence.

EXAMPLES:

Total cash on hand: In residence X, there are four residents. Residents A, B, and C each have individual cash on hand maximums of \$50. Resident D has an individual cash on hand maximum of \$40. The greatest amount that could be on hand in that residence would be \$190 (\$50 + \$50 + \$50 + \$40). In counting the cash on hand, cash in the residents' possession and cash held by residence staff should be added. So if Resident A had \$10 with him, Resident B had \$5.50 with him, Residents C and D had no cash, and the staff had cash in envelopes or a box belonging to residents that totalled \$130, the residence would

have \$145.50 cash on hand, and would be within the allowable amount. If, however, the cash held by the staff was \$185, the total cash on hand would be \$200.50, and the allowable amount would be exceeded.

Individual cash on hand: In the example above where the staff held \$130.00, if \$50 of that belonged to Resident A, then Resident A would have a total of \$60 "on hand," the \$10 he held plus the \$50 held by the staff.

This would exceed his maximum of \$50 stated in his IPP. If, however, of the \$130, \$35 belonged to Resident A, his total cash on hand would be \$45 and would be within his personal limit.

Draws of weekly spending allowance: Assume that a resident has a weekly spending amount of \$25, and a maximum amount on hand of \$45. (Both amounts would be stated in the person's IPP.) If, at the beginning of week 1, the resident has a total of \$5 on hand, the full weekly spending amount of \$25 may be drawn. Assume during week 1, the person draws \$25 in cash and spends \$23. Then at the beginning of week 2, the person has \$7 on hand ($\$5 + \$25 - \23). If, during week 2, the person draws \$25 and spends \$10, at the beginning of week 3, the resident would have \$22 cash on hand ($\$7 + \$25 - \10). In week 3, the resident could not draw the full weekly amount of \$25, because it would cause him to exceed his maximum amount of \$45 ($\$22 + \$25 = \47). Problems with managing weekly spending draws can be managed by setting the amounts at levels the residents realistically spend cash.

20. (Reference: IX) Should the review required in Section IX be assigned to residential coordinators rather than to case managers?

The requirement that case managers monitor the expenditure of an individual's funds does not mean that the case manager has to look at individual deposit and payment records. It means that the case manager should review reports on the use of individuals' funds. These reports should be made available to the 6 month review team by the residential staff or the staff actually handling the individual's funds. The case manager's function is to see, along with others on the interdisciplinary team, if the current financial plan is appropriate or needs revision, and if the current plan has been adhered to.²¹ (Reference: IX) What work should a provider's external auditors do with respect to individual funds which are held by the provider?

Section IX states that the financial records of individuals' funds managed by a provider are subject to review by the provider's external auditor. This means that the external auditor can look at these records if the auditor determines looking at the records is necessary to meet the requirements of SCDDSN's audit policy or the particular engagement. Whether or not the auditor actually looks at individuals' account is a matter of the auditor's professional assessment of the work he must do. It does not mean that the external auditor will audit each individual's account.

In cases where individuals funds are held in a collective account owned by the provider, the collective account would be included on the provider's financial statement in a manner that reflected the provider's fiduciary responsibility.

22. (Reference: IX) The directive shifts responsibility for the use of individual's funds from finance staff to program staff. Do program staff have sufficient skills to manage this responsibility?

Program staff have always dealt with the use of individuals' funds by requesting or approving payments from individuals' funds. So they have in effect always had this responsibility. Some providers have developed procedures where program staff did not have direct access to funds because no cash was maintained on hand or program staff were not allowed to sign checks. These procedures did mean that someone other than program staff was involved in any use of a individual's funds, but the determination of how funds would be used was still at the program level.

The directive may shift the involvement of provider financial staff. The financial staff still has many opportunities to exercise adequate controls. Provider financial staff may reconcile individual bank statements, or may review reconciliations performed by other staff. Financial staff should establish and review the procedures for handling and recording activities of cash on hand. Financial staff may give general guidelines for individual IPP financial plans, or they may participate in individual POS reviews. Financial staff will review payment of fees owed by individuals to the provider, and can notify appropriate other provider staff, up to and including the Executive Director, whenever there is a problem with an individual paying fees.

Financial staff should be involved in training other staff in financial matters when such training is needed.